

Beginning January 2005

- 50% to a state special revenue fund to be used of health and Medicaid initiatives
- 50% to the general fund

Collection Frequency: Monthly

Major Drivers:

- Tobacco value
- Tax rate
- Ounces of moist snuff
- Discounts and credits

Statutory Reference:

Tax Rate (MCA) – 16-11-202(2)

Tax Distribution (MCA) – 16-11-206

Date Due – prior to the sale of tobacco products (16-11-203)

% of Total FY 2004 General Fund: 0.26%

Reasons For Historical Changes:

- Tax Changes
 - 1964 First Surgeon General's Report on the Health Consequences of Smoking Noted risk factors associated with cigarette smoking and coronary disease
 - 1986 Surgeon General releases report, "Health Consequences of Using Smokeless Tobacco." Concludes that oral use of smokeless tobacco represents a significant health risk and can cause cancer.
 - 1986 Comprehensive Smokeless Tobacco Act of 1986 Banned smokeless tobacco advertising on television and radio required 3 rotating health warnings on packaging and advertise-

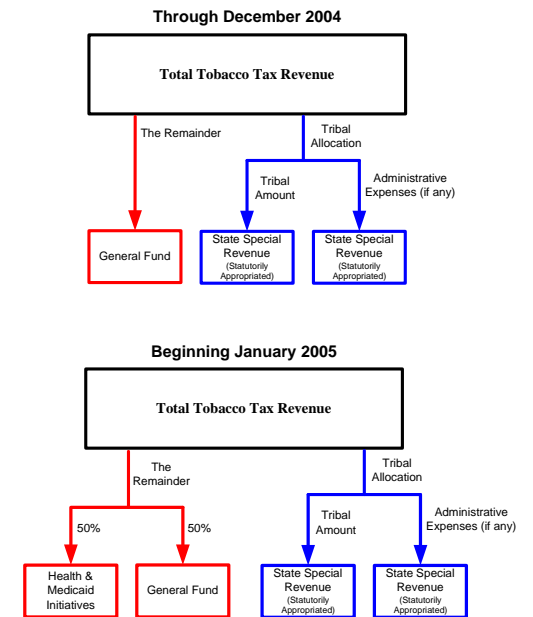
ments

- 1989 A three-year decline in smokeless tobacco products was reversed when the smokeless tobacco industry increased promotional expenditures by over 19 percent.
- 1992 Increased tax rate from 12.5 percent to 13.38 percent of wholesaler's price for one year (HB 44. 1992S Session Law Chapter 15)
- 1995 Enacted law to make use of tobacco products illegal for youth under the age of 18 (HB 457. 1995 Session Law Chapter 376)
- 1997 Transferred distribution to the general fund (HB 166. 1997 Session Law Chapter 422)
- 2003 Increased tax rate from 12.5 percent to 25 percent of wholesaler's price (SB 407. 2003 Session Law Chapter 544)
- 2004 Increased tax rate from 25 percent to 50 percent of the wholesaler's price and the tax on moist snuff from \$0.35 per ounce to \$0.85 per ounce (I 149. November 2004 ballot issue).
- 2004 Changed the distribution from 100 percent general fund to 50 percent general fund and 50 percent PHHS (I 149. November 2004 ballot issue).

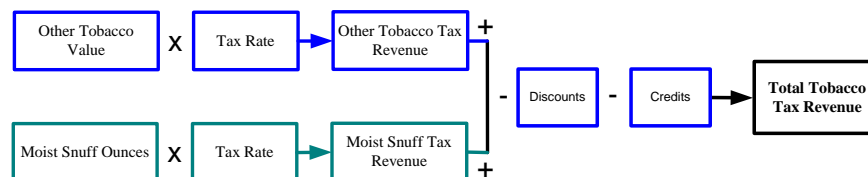
• Economic Changes

- Greater consumption possible due to thriving economy
- Decline in consumption possible due to sluggish economy

Distribution Methodology



Forecast Methodology



Legislative Fiscal Division



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LEGISLATIVE FISCAL DIVISION



Taxes in Brief... Tobacco Tax

November 2004

Fiscal Pocket Guide



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Revenue and Taxation Policy
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Tobacco Tax

Revenue Description:

The tobacco tax is an excise tax on tobacco products sold in Montana. Cigarettes are not subject to the tobacco tax. The tax is considered a direct tax on retail consumers, but is collected by the wholesaler. Tobacco products shipped from Montana and destined for retail sale and consumption outside the state are not subject to the tax.

Beginning May 1, 2003, the Fifty-eighth Legislature passed SB 407 that doubled the tax on all tobacco products other than cigarettes and moist snuff from 12.5 percent to 25.0 percent of the wholesale price. Furthermore, moist snuff is now taxed individually, increasing the rate from the equivalent of \$0.28 an ounce to \$0.35 an ounce. Beginning January 1, 2005, the electorate approved I-149 that raised the tax on other tobacco products to 50 percent of the wholesale price and moist snuff to \$0.85 per ounce. Wholesalers are allowed a discount of 2.5 percent, until January 1, 2005 when the discount will be reduced to 1.5 percent, to cover collection and administrative expenses. The wholesaler is entitled to a refund for tobacco products that remain unsold. I-149 adjusted distributions to allow half of the tax revenues to flow into the state general fund and half to flow into a new state special revenue fund for health and Medicaid initiatives.

The state has tobacco revenue sharing agreements with three tribes in Montana. In the agreements with the Blackfeet, Ft. Belknap, and Ft. Peck tribes, the state collects the tax imposed by the tribes and distributes the revenue to the tribes on a quarterly basis. Indian consumers of tobacco on other reservations are exempt from paying the tobacco tax.

Applicable Tax Rate(s):

Through December 2004

- Tobacco products - 25.0 percent of the wholesale price
- Moist snuff - \$0.35 per ounce

Beginning January 2005

- Tobacco products - 50.0 percent of the wholesale price
- Moist snuff - \$0.85 per ounce

Distribution:

Through December 2004

- All proceeds, less distributions paid according to tribal agreements, are deposited into the general fund

